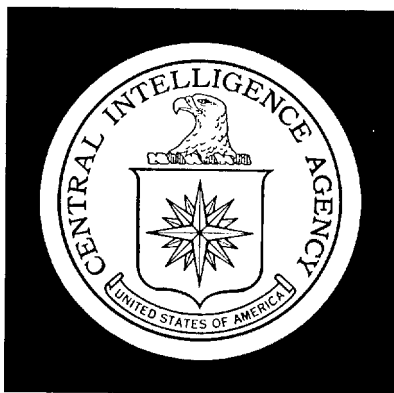


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DIA and DOS review(s) completed.

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No. 0148/71
22 June 1971

Central Intelligence Bulletin

CONTENTS

CAMBODIA: The Communists are thwarting government efforts near Phnom Penh. (Page 1)

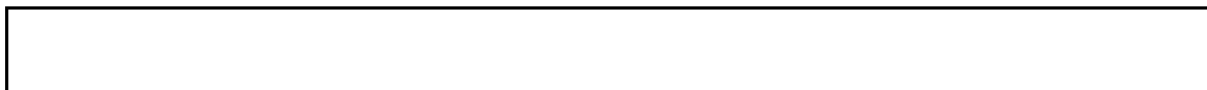
CEYLON - COMMUNIST CHINA - US: Allegation of US subversive activities. (Page 2)

NORWAY: Membership in the EC. (Page 3)

CANADA: The finance minister's budget speech. (Page 4)

UN - MIDDLE EAST: UN property in Jerusalem (Page 5)

PANAMA: Disappearance of a priest (Page 5)



25X6

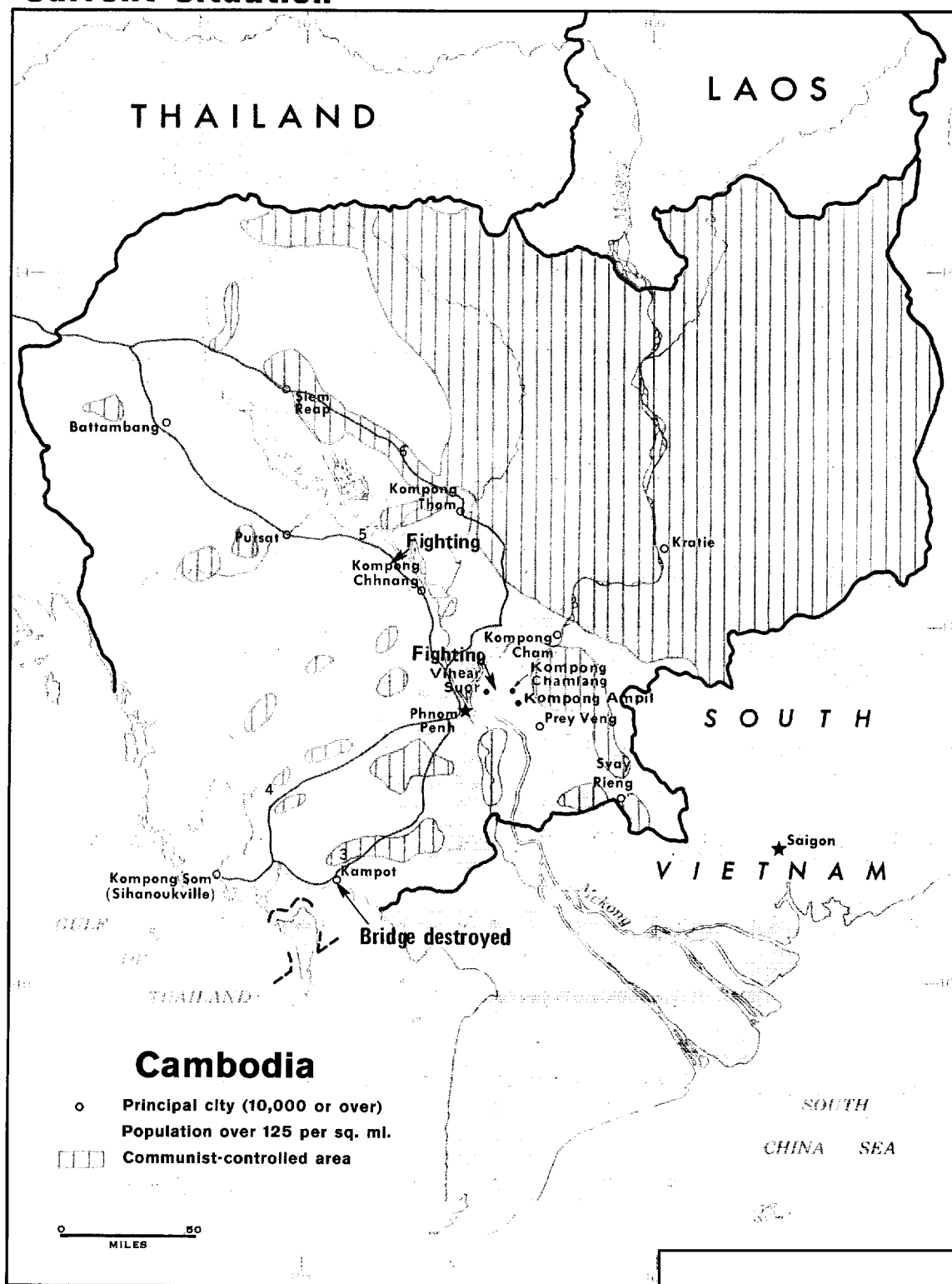
PHILIPPINES: Demonstrations over price increases (Page 6)

YEMEN (SANA) - SAUDI ARABIA: Financial aid (Page 7)

SECRET

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Current Situation



25X1

SECRET

CAMBODIA: The Communists continue to thwart government efforts to relieve several positions northeast of Phnom Penh.

A four-day push by a nine-battalion relief column of predominantly Khmer Krom troops is encountering heavy resistance in its efforts to lift a Communist siege of forces at Kompong Chamlang and Kompong Ampil. Cumulative casualties for the government column, which is now halted some three miles east of the staging point of Vihear Suor, are nearly 20 killed and 160 wounded. Enemy losses are put at 120 killed.

For the moment, government forces are undergoing a brief rest and refitting before renewing operations, tentatively scheduled for today. According to a US defense attaché who visited the area yesterday, the Cambodian Army commander for the operation said that his troops are well supplied and that morale is good. The commander also praised the heavy US and South Vietnamese air support, which is becoming increasingly critical as the rains make road travel impossible in the area of operations. He has requested several additional battalions for the drive, but nevertheless intends to move out on schedule whether or not these are forthcoming.

The Communists have been somewhat more active in the past few days in the Kampot area [REDACTED]

[REDACTED] A large bridge in Kampot city was destroyed on 17 June, isolating one section of the town; the Communists, however, have not yet followed up with any ground action against government troops in the area. [REDACTED]

22 Jun 71

Central Intelligence Bulletin

1

SECRET

CEYLON - COMMUNIST CHINA - US: A high Ceylonese Government official has reopened the question of US "subversive" activities on the island.

In a speech to the Senate on 17 June, the minister of posts and telecommunications quoted from a report by Ceylon's ambassador to China describing a meeting with Premier Chou En-lai. According to the report, Chou was worried about recent developments in Ceylon, particularly the suspicion that Peking was involved in the "Che Guevara" insurgency there. After denying Chinese complicity, Chou reportedly referred to the recent "expulsion" of two "CIA agents" from Ceylon and charged that the CIA had adopted the tactics of ultraleftism for counter-revolutionary purposes.

The minister claims to have had the permission of Prime Minister Bandaranaike to read from the ambassador's report. Allegations by leftist cabinet ministers that the US has been backing revolutionaries in Ceylon date back almost a year, but recently Mrs. Bandaranaike publicly repudiated such charges. She apparently made the ambassador's report available to the minister as background only for a statement intended to remove any doubts about Chinese complicity in the insurgency and is described as "extremely upset" by the speech.

Another minister, Felix Dias Bandaranaike, told the US ambassador that the prime minister is in a "panic" because the speech might jeopardize the improvement of Sino-US relations as well as cause difficulties for her with both the US and China. According to Felix, Chou had sent a letter to the prime minister informing her that the views expressed in his previous talk with the Ceylonese ambassador were no longer current. Felix claimed that Chou added that he wanted to avoid offending the US. Now that the topic has been aired publicly, however, it may be difficult for Mrs. Bandaranaike to placate all parties.

25X1

22 Jun 71

Central Intelligence Bulletin

2

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NORWAY: Parliament has voted to continue negotiations for membership in the European Communities (EC), but the opposition is now only one vote short of the number needed to block ratification of an agreement.

The majority of the votes against negotiations came from the agrarian Center Party, whose negative attitude on this issue helped bring down the bourgeois government last March, but significant contingents from the Labor, Liberal, and Christian People's parties departed from the stand of their respective leaderships to join the Center in opposition. Observers from Prime Minister Bratteli's Labor Party maintain that the final vote on membership will be taken with party discipline imposed, thus reducing the number of Laborites voting against the idea, and they are also counting on British entry into the EC to influence public opinion favorably.

With the opposition in parliament greater than anticipated and popular resistance to EC membership hardening, Norway's entry into the EC will ultimately depend on the little-known political skills of the Bratteli government.

25X1

22 Jun 71

Central Intelligence Bulletin

3

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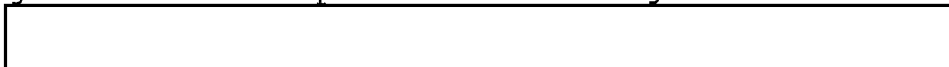
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CANADA: Finance Minister Edgar Benson's budget speech last week provided for sweeping tax reform but posed no new restrictions on US foreign investment and failed to set a parity for the Canadian dollar that has been floating for over one year.

Any changes in the treatment of US foreign investment probably will come out of the upcoming Gray Report, which will consider the role of foreign investment in Canada. The failure to repeg the dollar indicates that the government wants to test the exchange rate in the context of a reviving economy.

Benson offered to end the three-percent income surtax on 1 July. He projected a budgetary deficit of over US \$700 million for the fiscal year ending 31 March 1972 compared with a \$400-million deficit last year and predicted a nine-percent increase in gross national product in the remainder of 1971 over the same period of 1970. Further fiscal stimulation will come from reduced corporate tax rates over the next four years.

The tax reforms, proposed for 1 January 1972, will remove a million Canadians from the tax rolls, reduce taxes for another 4.7 million, and raise taxes for 1.3 million more affluent Canadians. The resulting revenue losses will be partially offset by the imposition for the first time of a capital gains tax of 50 percent of the regular tax rate.

25X1
22 Jun 71

Central Intelligence Bulletin

4

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UN - MIDDLE EAST: Following an unsatisfactory Israeli reply last week to UN Secretary Thant's latest request for the return to the UN of property in Jerusalem, Thant is preparing another strong denunciation of Israeli activities focusing on the disputed Government House. Still contending that the UN has no legal right to Government House, the Israelis are apparently moving ahead with bulldozing in preparation for road building and housing construction. A new attack by Thant on Israel's policies in Jerusalem may increase pressures for Security Council consideration of the Jerusalem problem.

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PANAMA: The disappearance on 9 June of a popular young Colombian priest who had opposed the Torrijos regime has kicked up the biggest public outcry against the government in its two and one-half years in office. The priest was apparently kidnaped by the National Guard and may have been killed. The government, surprised by the agitation over the incident, has gone to great lengths to deny its involvement. The regime's attempts, however, to portray itself as a friend of the priest and to pin the blame on right-wing elements or the US have severely damaged the regime's credibility with the populace. Government efforts to mobilize student and peasant support have been undercut, and the regime seems to be headed for a direct and unwanted confrontation with the church.

25X1

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22 Jun 71

Central Intelligence Bulletin

5

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25X6

PHILIPPINES: Pending price increases for petroleum products have set off another round of demonstrations in Manila and more are expected to come. This time key Manila newspapers have chosen to highlight the dominant position of US firms in the Philippine oil industry and on 20 June small demonstrations near the US Embassy erupted into a confrontation with the police. Strikes and civil disorders also were reported throughout the city yesterday. The upcoming price rise is in response to a ten-percent tariff increase imposed by Manila earlier this year and the higher cost of imported crude oil stemming from increased prices obtained by major producing countries.

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22 Jun 71

Central Intelligence Bulletin

6

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YEMEN (SANA) - SAUDI ARABIA: President Iryani has been disappointed in his quest for financial assistance in Riyadh. The Yemenis claim the Saudis offered only to guarantee a standard bank loan of \$11.1 million. Meanwhile, the Yemeni estimate of the deficit in next year's \$35-million budget has been raised from \$19 million to \$31 million. Moreover, they claim that interest is now due on \$186 million in Soviet and Communist Chinese loans. While these estimates have been padded to gain Western sympathy, the failure to get more financial assistance is symptomatic of the continued wide divergence in Saudi and Yemeni views of Yemen's problems.

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22 Jun 71

Central Intelligence Bulletin

7

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